

FISCAL NOTE

Bill #: SB0517

Title: Generally reform income taxes -- tie to federal taxable income

Primary

Sponsor: Alvin Ellis

Status: As introduced

| | | | |
|-------------------|------|-----------------------------|------|
| Sponsor signature | Date | Dave Lewis, Budget Director | Date |
|-------------------|------|-----------------------------|------|

Fiscal Summary

| | <u>FY2000 Difference</u> | <u>FY2001 Difference</u> |
|--|-------------------------------------|-------------------------------------|
| Expenditures: | | |
| General Fund | \$175,000 | (\$193,000) |
| Revenue: | | |
| General Fund | \$0 | (\$48,212,000) |
| Net Impact on General Fund Balance: | (\$175,000) | (\$48,019,000) |

| <u>Yes</u> | <u>No</u> | | <u>Yes</u> | <u>No</u> | |
|-------------------|------------------|----------------------------------|-------------------|------------------|-------------------------------|
| | X | Significant Local Gov. Impact | | X | Technical Concerns |
| | X | Included in the Executive Budget | X | | Significant Long-Term Impacts |

Fiscal Analysis

ASSUMPTIONS:

Individual Income Tax

1. This proposal applies to tax years beginning after December 31, 1999 (tax year 2000). There is no revenue impact from this proposal in FY 2000.
2. Under this proposal, state tax liability for individual income taxpayers would be based on federal taxable income. Taxpayers would make adjustments (reductions) to federal taxable income for interest income on obligations of the U.S. government, railroad retirement, and exempt tribal income to arrive at adjusted federal taxable income. Adjusted federal taxable income would then be applied to the new rate tables

(continued)

provided for in the bill to arrive at state tax liability. Separate rate tables are provided for single filers, heads of households, married couples filing jointly, and married couples filing separately.

3. The rate tables provided for in the bill result in a reduction in liability of \$973,000 for tax year 2000. This reduction is fully reflected in FY 2001.
4. The bill also provides for a new household and dependent credit. The credit for married couples filing jointly is \$500 plus \$100 for each dependent; the credit for heads of households is \$400 plus \$100 for each dependent; and the credit for single filers is \$300. The credit is phased out for households having federal adjusted gross incomes between \$25,000 and \$50,000. The credit reduces tax year 2000 liabilities an additional \$47,239,000; this results in a total reduction in liability of \$48,212,000 for tax year 2000.

Administrative Impacts

1. There will be one-time administrative expenses associated with reconfiguring the individual income tax computer system to conform to the new format of tying to federal taxable income. The department intends to replace its existing individual income tax system, and, therefore, will make only those modifications minimally required to implement this legislation. These one-time costs to modify the system are estimated to be \$175,000 in FY 2000.
2. The Department will have administrative savings of \$193,000 in FY 2001. This is due to elimination of the current long and short form tax returns; having to process fewer income tax returns; reduced mail handling; reduced data entry exceptions; reduced computer storage costs; and lowered cost of processing refunds. These ongoing cost reductions reflect reductions in internal contracted services. There are no anticipated cost savings in the audit program of the agency.

FISCAL IMPACT:

| | <u>FY2000 Difference</u> | <u>FY2001 Difference</u> |
|--|------------------------------|------------------------------|
| <u>Expenditures:</u> | | |
| Operating Expenses | \$175,000 | (\$193,000) |
| <u>Funding:</u> | | |
| General Fund (01) | \$175,000 | (\$193,000) |
| <u>Revenues:</u> | | |
| General Fund (01) | \$0 | (\$48,212,000) |
| <u>Net Impact to Fund Balance (Revenue minus Expenditure):</u> | | |
| General Fund (01) | (\$175,000) | (\$48,019,000) |

LONG-RANGE IMPACTS:

The on-going administrative savings shown in FY 2001 would carry on in future years.